



LEGISLATIVE FISCAL OFFICE
Streamlining Commission Analysis

Recommendation No. **RECOMMENDATION 65**
Streamlining Draft **AGEB 36**

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|---|--------------------------------|
| Date: January 27, 2010 12:40 PM | Author: |
| Dept./Agy.: Department of Revenue | Analyst: Deborah Vivien |
| Subject: LDR audit for local sales tax | |

This recommendation would allow the Department of Revenue to contract with local political subdivisions for audits of local sales and use tax to be completed by state auditors simultaneously with the state sales and use tax audit.

| EXPENDITURES | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 5 -YEAR TOTAL |
|----------------|----------|----------|----------|----------|----------|---------------|
| State Gen. Fd. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Agy. Self-Gen. | INCREASE | INCREASE | INCREASE | INCREASE | INCREASE | |
| Ded./Other | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | DECREASE | DECREASE | DECREASE | DECREASE | DECREASE | |
| Annual Total | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

| REVENUES | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 5 -YEAR TOTAL |
|----------------|-----------|-----------|-----------|-----------|-----------|---------------|
| State Gen. Fd. | SEE BELOW | SEE BELOW | SEE BELOW | SEE BELOW | SEE BELOW | |
| Agy. Self-Gen. | INCREASE | INCREASE | INCREASE | INCREASE | INCREASE | |
| Ded./Other | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Annual Total | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

EXPENDITURE EXPLANATION

It is assumed that in addition to performing audits of local sales and use tax, the Department of Revenue will be expected to maintain the current level of effort in the auditing of state sales and use tax. Based on the further assumption that the additional audit requirements would otherwise adversely impact the department’s ability to maintain its current effort to audit state sales and use tax, additional auditors would be employed by the state to conduct state/local sales tax audits. The contracted rate with local political subdivisions will presumably cover any additional expenses, shown above as an increase in self-generated expenditures (additional auditors) and self-generated revenue (negotiated contract with the local entity).

Due to differing local sales tax bases and policy requirements, it is expected that the inclusion of local sales tax audits would require the auditor to remain on premises for about 40% longer. Audits now average about 97 hours; with local sales tax audit requirements, the time involved is expected to increase by 40% to 136 hours, an increase of 39 hours. Based on an average hourly rate of \$39.13, this implies an additional cost of \$1,526 per audit. On average the state conducts about 800 audits per year, which would result in a total increase in annual expenditures of about \$1.2 million. These expenditures will presumably be funded through contracts with the local entity. Though only salaries are considered here, it may be the case upon negotiation of the contract between the state and the political subdivision that other expenses should also be included, (Continued on page 2)

REVENUE EXPLANATION

An increase of about \$750,000 in self-generated revenue is anticipated if all local entities choose to contract with the state, and the negotiated contract covers the expenses incurred by the state in conducting the local sales tax audits, as outlined in the expenditure explanation. It is not expected that all local entities will choose to contract with the state for sales tax auditing services. A major assumption of this analysis is that state T.O. is increased to allow for the hiring of more sales tax auditors to conduct local audits. However, should additional T.O. not be made available, it is expected that this recommendation could result in a significant decline in state general fund revenue as auditors spend more time on local tax audits at the expense of state sales tax audits. Because audits will take longer, it is assumed that the number of audits conducted for state sales tax will also drop by 40% from 813 to 488 if T.O. is not increased. An exact estimate of the change in collections due to fewer audits cannot be determined as the number of local entities that will contract with the state is unknown as is the amount of state sales tax revenue liabilities not detected or taxpayer benefits not claimed. As an example of a possible magnitude, the state collected about \$52 million annually through audits over the last three years. Assuming an equivalent drop of 40% in state sales tax collections as state audits are foregone, a state general fund revenue decrease of about \$21 million would be anticipated. The actual magnitude will depend on the circumstances surrounding the taxpayers that will not be audited and cannot be predicted with any degree of accuracy.

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|---|---------------------|--|--|
| Senate | Dual Referral Rules | House | |
| <input type="checkbox"/> 13.5.1 >= \$500,000 Annual Fiscal Cost | | <input type="checkbox"/> 6.8(F) >= \$500,000 Annual Fiscal Cost | H. Gordon Monk Legislative Fiscal Officer |
| <input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change | | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease | |



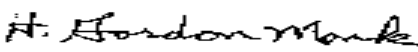
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CONTINUED EXPLANATION from page one: Page 2 of 2

Expenditure Explanation (continued)
which would increase this figure. This analysis assumes that every political subdivision elects to have the state conduct its sales tax audits, which is not anticipated, and that any contract would take place only if the state can provide local auditing services for an amount less than what is currently being expended for sales and use tax audits at the local level.

| | | | |
|---|----------------------------|--|---|
| <u>Senate</u> | <u>Dual Referral Rules</u> | <u>House</u> |  |
| <input type="checkbox"/> 13.5.1 >= \$500,000 Annual Fiscal Cost | | <input type="checkbox"/> 6.8(F) >= \$500,000 Annual Fiscal Cost | |
| <input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change | | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease | H. Gordon Monk Legislative Fiscal Officer |